

**RURAL WATER DISTRICT NO. 8
SHAWNEE COUNTY, KANSAS**

**FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011**

And

INDEPENDENT AUDITORS' REPORT

...KL...

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RURAL WATER DISTRICT NO. 8
Shawnee County, Kansas

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**INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS**

To the Board of Directors
Rural Water District No. 8, Shawnee County, Kansas
Tecumseh, Kansas 66542

We have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 8 as of and for the years ended December 31, 2012 and 2011, which comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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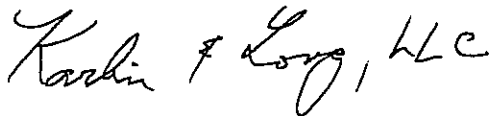
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Rural Water District No. 8, Shawnee County, Kansas, as of December 31, 2012 and 2011, and the respective changes in net assets and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matter

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rural Water District No. 8, Shawnee County, Kansas financial statements as a whole. The Schedule of Insurance in Force is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Karlin & Long, LLC".

Karlin & Long, LLC
Lenexa, KS
January 21, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion of the financial performance of Rural Water District No. 8, Shawnee County Kansas (the District), provides an overview of the financial activities of the District for the fiscal year ended December 31, 2012 and comparative data for the fiscal years ended December 31, 2012 and December 31, 2011. This information is presented in conjunction with the audited financial statements that follow this section.

During fiscal year 2003, the District adopted the financial reporting format required by the Governmental Accounting Standards Board's Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Financial Highlights

The District's net assets decreased by \$ 80,365. This was principally due to the investment in the Tri-District and accelerating the performance bonus to the current year.

The District realized a loss from operations of \$54,725, after recognizing depreciation and amortization expense of \$ 114,152.

Total cash on hand at the end of the year was \$ 1,570,950 which was an increase of \$47,466 over the cash on hand on December 31, 2011. The total unrestricted cash on hand on December 31, 2012 was \$ 1,160,485.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District.

The District's basic financial statements comprise two components: 1) basic financial statements, and 2) notes to financial statements.

Basic Financial Statements.

The financial statements present the financial picture of the District from the economic resource measurement focus using the accrual basis of accounting.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net assets presents information showing how the District's net assets changed over the two most recent fiscal

years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related to cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Notes to basic financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to basic financial statements can be found on pages 11 - 23 of this report.

The District's net assets reflects its investment in capital assets (e.g., land, buildings, infrastructure, and equipment); less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its participating members (customers); consequently, these assets are not available for future spending.

The unrestricted net assets may be used to meet the District's ongoing obligations to its customers and creditors.

Capital Assets

The District's investment in capital assets for its business-type activities as of December 31, 2012 and 2011 was \$1,617,105 and \$1,710,705, respectively, (net of accumulated depreciation). This includes land, buildings, infrastructure and facilities and equipment.

Additional information on the District's capital assets can be found in Note 11 on pages 20-23 of this report.

Debt Administration

At the end of fiscal year 2012, the District had no debt outstanding.

Economic Factors and Next Year's Budget and Rates

The Annual Budget outlines the staff's plan to carry out the District's mission of providing a safe and dependable supply of potable water for the public health and safety of rural Shawnee County.

As a product of an ongoing examination of how the District does its business, our budget seeks to assure that we have the necessary funds to accomplish our objectives, while insuring that our rates and charges remain as competitive as possible.

Continued growth within the District is anticipated. The potential of City annexation into our area is a factor that could have an impact upon our operations, and the Board of Directors continues to monitor and participate in that process. Significant road improvements are anticipated over the next few years will require some major water line relocation efforts, however most if not all of the costs associated with those improvements should be reimbursable.

Requests for Information

This financial report is designed to provide citizens, customers, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the money that it receives. If you have any questions about this report or desire any additional information, contact the general manager at 3260 SE Tecumseh Rd., Tecumseh, KS 66542, or phone (785) 379-5553.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF NET ASSETS

As of December 31, 2012 and 2011

| | ASSETS | |
|-------------------------------------|---------------------|---------------------|
| | 2012 | 2011 |
| Current Assets | | |
| Cash and cash equivalents | \$ 157,397 | \$ 316,141 |
| Short-term investments | 1,003,088 | 801,053 |
| Accounts receivable | 92,488 | 107,056 |
| Inventory | 29,287 | 28,178 |
| Prepaid expenses | 3,019 | 2,889 |
| Total current assets | 1,285,279 | 1,255,317 |
| Noncurrent Assets | | |
| Long-term investments | 410,465 | 406,290 |
| Total noncurrent assets | 410,465 | 406,290 |
| Investment in Tri-District | 1,518,011 | 1,560,413 |
| Property, plant, and equipment, net | 1,617,105 | 1,710,705 |
| Total Assets | <u>\$ 4,830,860</u> | <u>\$ 4,932,725</u> |

LIABILITIES AND NET ASSETS

| | | |
|----------------------------------|---------------------|---------------------|
| Current Liabilities | | |
| Accounts payable | \$ 61,286 | \$ 84,273 |
| Accrued payroll taxes | 4,875 | 4,319 |
| Accrued payroll | 20,390 | 19,459 |
| Total current liabilities | 86,551 | 108,051 |
| Net Assets | | |
| Invested in capital assets | 1,617,105 | 1,710,705 |
| Unrestricted | 3,127,204 | 3,113,969 |
| Total net assets | 4,744,309 | 4,824,674 |
| Total Liabilities and Net Assets | <u>\$ 4,830,860</u> | <u>\$ 4,932,725</u> |

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|------------------------------------|-----------------|-----------------|
| Revenues | | |
| Water sales | \$ 1,011,107 | \$ 904,709 |
| Service charge | 301,674 | 301,034 |
| Tri-District expense reimbursement | 33,938 | 27,977 |
| Miscellaneous | <u>22,948</u> | <u>21,484</u> |
| Total operating revenues | 1,369,667 | 1,255,204 |
| Cost of water purchased | <u>808,313</u> | <u>725,895</u> |
| Gross profit | <u>561,354</u> | <u>529,309</u> |
| Operating Expenses | | |
| Depreciation and amortization | 114,152 | 113,490 |
| Wages | 253,173 | 228,456 |
| Payroll taxes | 20,559 | 16,664 |
| Employee pension and benefits | 52,617 | 62,417 |
| Repairs | 72,673 | 59,011 |
| Insurance | 9,841 | 10,561 |
| Power and light | 4,128 | 4,143 |
| Vehicle expense | 8,810 | 9,289 |
| Office expense | 16,783 | 19,328 |
| Meter reading | 24,148 | 22,218 |
| Telephone | 5,322 | 5,460 |
| Directors' expense | 4,900 | 3,100 |
| Legal | 6,692 | 2,401 |
| Accounting | 4,950 | 4,850 |
| Engineering | - | 1,450 |
| Miscellaneous | <u>17,331</u> | <u>4,761</u> |
| Total operating expenses | <u>616,079</u> | <u>567,599</u> |
| Income (loss) from operations | <u>(54,725)</u> | <u>(38,290)</u> |

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---|----------------------------|----------------------------|
| Non-Operating Revenues (Expense) | | |
| Interest income | 7,147 | 14,740 |
| Gain (loss) on investment in Tri-District | <u>(42,402)</u> | <u>(45,934)</u> |
| Total non-operating income (expense) | <u>(35,255)</u> | <u>(31,194)</u> |
| Net Income (loss) Before Contributions | (89,980) | (69,484) |
| Capital Contributions | | |
| Benefit units sold | 8,800 | 19,800 |
| Contributions in aid of construction | <u>815</u> | <u>4,292</u> |
| Total capital contributions | <u>9,615</u> | <u>24,092</u> |
| Change in Net Assets | (80,365) | (45,392) |
| Net Assets - Beginning of Year | <u>4,824,674</u> | <u>4,870,066</u> |
| Net Assets - End of Year | <u><u>\$ 4,744,309</u></u> | <u><u>\$ 4,824,674</u></u> |

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| Cash flows from operating activities | | |
| Cash receipts from customers and reimbursements for services | \$ 1,361,287 | \$ 1,219,687 |
| Miscellaneous cash receipts | 22,948 | 21,484 |
| Cash payments for goods and services | (1,008,117) | (873,630) |
| Cash payments to employees for services | <u>(324,862)</u> | <u>(307,537)</u> |
| Net cash provided by operating activities | 51,256 | 60,004 |
| Cash flows from investing activities | | |
| Interest income | 7,147 | 14,740 |
| Purchase of investments | <u>(206,210)</u> | <u>(4,428)</u> |
| Net cash provided by investing activities | (199,063) | 10,312 |
| Cash flows from capital and related financing activities | | |
| Purchase of capital assets | (20,552) | (24,300) |
| Proceeds from sale of benefit units | 8,800 | 19,800 |
| Contributions in aid of construction | <u>815</u> | <u>4,292</u> |
| Net cash used in capital and related financing activities | <u>(10,937)</u> | <u>(208)</u> |
| Net increase in cash and cash equivalents | (158,744) | 70,108 |
| Cash and cash equivalents, beginning of year | <u>316,141</u> | <u>246,033</u> |
| Cash and cash equivalents, end of year | <u>\$ 157,397</u> | <u>\$ 316,141</u> |

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---|------------------|------------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income (loss) | \$ (54,725) | \$ (38,290) |
| Adjustments to reconcile operating loss to net cash provided by operating activities | | |
| Depreciation and amortization | 114,152 | 113,490 |
| Changes in assets and liabilities | | |
| Accounts receivable | 14,568 | (14,030) |
| Inventory | (1,109) | (673) |
| Prepaid expenses | (130) | 570 |
| Accounts payable | (22,987) | 4,120 |
| Accrued expenses | <u>1,487</u> | <u>(5,183)</u> |
| Net cash provided by operating activities | <u>\$ 51,256</u> | <u>\$ 60,004</u> |

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Organization

Rural Water District No. 8, Shawnee County (the District) was organized under Kansas law and is accounted for as an enterprise fund using the accrual basis of accounting. The District's purpose and objective is to acquire water and water rights, to build and acquire pipelines and for the purpose of furnishing water for domestic, agriculture, and/or other purposes. The District provides services to patrons in Shawnee County.

GASB Statement No. 34

In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The statement known as the "Reporting Model" statement, affects the way the District prepares and presents information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental information to make decisions and includes:

Management's Discussion and Analysis

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analysis overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Statement of Net Assets or Balance Sheet

This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net assets of the District will be broken down into three categories 1) invested in capital assets, net of depreciation; 2) restricted (if applicable); and 3) unrestricted.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

GASB Statement No. 34 (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The statement of cash flows provides information about how the District meets the cash flow needs of its activities.

GASB Statement No. 20

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, all proprietary funds continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds have the option of either choosing not to apply future FASB standards (including amendments of earlier pronouncements), or continuing to follow new FASB pronouncements (unless they conflict with GASB guidance). The District has chosen not to apply future FASB standards for proprietary funds.

Budget

The District prepares its budget for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget is not presented in the financial statements.

Cash and Cash Equivalents

For the purposes of the statement of cash flows the District defines cash and cash equivalents as demand deposits and certificates of deposit at banks with maturities of three months or less.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Investments

The investments represent nonnegotiable certificates of deposit. The Certificates of deposit are recorded at cost because they are not affected by market rate changes.

Accounts Receivable

Accounts receivable are carried at original invoice amount less any estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts.

Inventory

The District's inventory is valued at the lower of cost or market. Cost is determined by the first-in, first-out method.

Property, Plant, and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The district does not have a formal capitalization policy. Depreciation expense totaled \$ 114,152 and \$ 113,490 for the years ended December 31, 2012 and 2011, respectively.

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$ 2,200.

Aid in Construction

Aid in Construction represents contributions from the members for line extensions.

RURAL WATER DISTRICT NO. 8
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Net Assets

The District's net assets are classified as follows:

Invested in capital assets, net of accumulated depreciation – This represents the District's total investment in capital assets, net of accumulated depreciation.

Unrestricted net assets – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expense for any purpose.

Use of Estimates

The preparation of financial statements in compliance with generally accepted accounting principles requires managements to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level.

The District's payroll tax returns for the years ending 2012, 2011, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

NOTE 2 – Deposits and Investments

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the district. The statute requires banks eligible to hold the district's funds have a main or branch bank in the county in which the district is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The district has no other policies that would further limit interest rate risk.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (continued)

Deposits (continued)

K.S.A. 12-1675 limits the district's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The district has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the district may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. State statutes require the district's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2012 and 2011.

At December 31, 2012 and 2011, the District's carrying amount of deposits, including certificates of deposit, was \$ 1,570,950 and \$ 1,523,484 respectively, and the bank balance was \$ 1,572,196 and \$ 1,525,534 respectively, of which \$ 250,000 was covered by FDIC insurance. \$ 1,322,196 was collateralized by securities held in safekeeping pledged to the District.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Benefit Units Certificates

During 1991, the District was contracted by Tecumseh Township to improve, upgrade, maintain and assume operations of the Township's water system. The District issued Series A, 1991 Water System Revenue Bonds in the amount of \$355,350 to cover the cost of the project. Those bonds have subsequently been refunded with the Water System Refunding Revenue Bonds, series 1996. As of December 31, 1991, there were 260 benefit users in the affected area. The District offered the patrons two payment alternatives to offset the cost of the project:

- a) An initial charge of \$ 2,367, or
- b) A monthly fee of \$ 19 over the life of the bonds.

The charges to the patrons include \$ 1,000 for the benefit unit, as well as amounts for aid-in-construction, principal and interest to be repaid.

Initially, 241 patrons elected to pay the \$ 19 monthly fee for the life of the bonds, and 19 patrons paid the initial charge of \$ 2,367. New users joining the system after December 31, 1991 are required to pay for the benefit unit and \$ 19 per month until the bonds were paid off.

In 1995, the District's Board of Directors adopted a resolution that decreased the monthly payment to \$ 17.

In 2007, the District paid off the remaining balance of the Water System Refunding Revenue Bonds, Series 1996. As a result, the affected patrons are no longer charged a monthly fee.

NOTE 4 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years. See Schedule of Insurance in Force for details of insurance.

NOTE 5 – Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretation of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. We noted no violations of Kansas statutes during the years ended December 31, 2012 and 2011.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – Concentration of Suppliers

The District acquires 100% of its water from the City of Topeka and the Tri-District facility. There are no other suppliers of water available for this district.

NOTE 7 – Investment in Tri-District

In 1979, and as amended in 1980, the District entered into a joint venture agreement with Rural Water District No. 3 of Douglas County, Kansas and Rural Water District No. 5 of Osage County, Kansas for the purposes of construction a water treatment facility (Tri-District Facility). The following represents the interests of the Districts in the treatment facility:

| | |
|--|--------|
| Rural Water District No. 3, Douglas County, KS | 35.00% |
| Rural Water District No. 5, Osage County, KS | 30.00% |
| Rural Water District No. 8, Shawnee County, KS | 35.00% |

The above Districts are responsible for the operating expenses, debt and improvements of the Tri-District Facility based on the above percentages.

During 1996, the district entered into an interlocal cooperation agreement for construction and financial of improvements to the Tri-District facility. The total cost of the project was \$ 2,000,000. The District's share was \$ 700,000 which was funded by the District issuing \$ 400,000 of Water System Revenue Bonds, Series 1997 and using available cash. The Series 1997 bonds were refunded with the Series 2001 bonds, which matured in 2006.

During 2002, additional improvements to the Tri-District facility were completed. The total cost of the project was approximately \$ 1,600,000. The agreement required the district to share in approximately 35% of the improvement costs. The District used available cash to fund the project.

Under Governmental Accounting Standard No. 14 (GASB), the District has recorded their interest in the Tri-District Facility under the equity method of accounting. Under the equity method of accounting, all payments to the Tri-District Facility increase their investment. Net income of the Tri-District Facility increases their investment while a net loss reduces the investment. The following represents the unaudited statement of net assets and statement of revenue and expenses as of December 31, 2012 and 2011:

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS**NOTE 7 – Investment in Tri-District (continued)**

| | <u>2012</u> | <u>2011</u> |
|-------------------------------------|---------------------|---------------------|
| Statement of Net Assets | | |
| Assets | | |
| Cash and cash equivalents | \$ 12,371 | \$ 162,060 |
| Due from RWD #3 | 96,045 | 96,045 |
| Property, plant, and equipment, net | 4,674,543 | 4,645,999 |
| Bond costs, net | | |
| | <u>\$ 4,782,959</u> | <u>\$ 4,904,104</u> |
| | | |
| Net Assets | | |
| Rural Water District No. 3 | 1,947,445 | 1,989,847 |
| Rural Water District No. 5 | 1,317,503 | 1,353,844 |
| Rural Water District No. 8 | <u>1,518,011</u> | <u>1,560,413</u> |
| | <u>\$ 4,782,959</u> | <u>\$ 4,904,104</u> |

The District has adjusted their investment to the above equity reported by the Tri-District. The Tri-District's financial statements have not been audited as of December 31, 2012 and 2011; as a result, the information recorded on the Districts statement of net assets would change if there were adjustments made to the Tri-District's financial statements.

The following represents the statement of activities for the year ended December 31, 2012 and 2011:

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS**NOTE 7 – Investment in Tri-District (continued)****Statement of Revenues and Expenses**

| | <u>2012</u> | <u>2011</u> |
|---------------------------|--------------------|------------------|
| Water sales and fees | \$ 640,691 | \$ 602,914 |
| Operating expenses | <u>761,846</u> | <u>529,477</u> |
| Loss from operations | (121,155) | 73,437 |
| Interest income | <u>7</u> | <u>13</u> |
| Net Income (loss) | (121,148) | 73,450 |
| District's share | <u>35%</u> | <u>35%</u> |
| Gain (loss) in investment | <u>\$ (42,402)</u> | <u>\$ 25,708</u> |

The gain (loss) on investment is reported in the nonoperating section of the District's statement of revenues and expenses. The above is for the years ended December 31, 2012 and 2011.

NOTE 8 – Defined Contribution Pension Plan

The District has established a defined contribution pension plan covering all of its employees. The plan is non-contributory for employees. The District contributes 10% of the employees' gross wages on a monthly basis to the plan. The Board of Directors has the authority to establish and amend benefit provisions. Pension expense for the years ended December 31, 2012 and 2011 was \$ 23,709 and \$ 25,130, respectively.

NOTE 9 - Leases

There were no significant leases in 2012 and 2011.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 10—Contracts

In 1979, the District entered into an agreement with the Tri-District Facility to purchase water. In 2011, the District purchased 174,681,000 at \$1.25 per 1,000 gallons plus a fixed monthly fee of \$2,100.

NOTE 11—Property, Plant, and Equipment

The following represents property, plant, and equipment of the District and does not include any assets of the Tri-District Facility:

| | <u>2012</u> | <u>2011</u> |
|--------------------------|---------------------|---------------------|
| Meters | \$ 1,206,309 | \$ 1,191,317 |
| Distribution lines | 3,110,907 | 3,110,907 |
| Tanks | 595,696 | 595,696 |
| Land | 33,300 | 33,300 |
| Office building | 88,852 | 88,852 |
| City water tower | 128,869 | 128,869 |
| Office equipment | 59,242 | 53,681 |
| Other equipment | <u>126,381</u> | <u>126,381</u> |
| | 5,349,556 | 5,329,003 |
| Accumulated depreciation | <u>3,732,451</u> | <u>3,618,298</u> |
| Book value | <u>\$ 1,617,105</u> | <u>\$ 1,710,705</u> |

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS**NOTE 11—Property, Plant, and Equipment (continued)**

The following represents a roll-forward of property, plant, and equipment as of December 31, 2012 and 2011:

| | 2011 Rollforward | | |
|--------------------|----------------------|------------------|-----------------|
| | Beginning Balance | Additions | Dispositions |
| Meters | \$ 1,195,880 | | \$ 4,563 |
| Distribution lines | 3,110,907 | | |
| Tanks | 595,696 | | |
| Land | 33,300 | | |
| Office building | 88,852 | | |
| City water tower | 128,869 | | |
| Office equipment | 52,082 | 1,599 | |
| Other equipment | 108,395 | 17,986 | |
| | <u>\$ 5,313,981</u> | <u>\$ 19,585</u> | <u>\$ 4,563</u> |
| | | | |
| | 2012 Rollforward | | |
| | Beginning Balance | Additions | Dispositions |
| Meters | \$ 1,191,317 | \$ 14,992 | |
| Distribution lines | 3,110,907 | | |
| Tanks | 595,696 | | |
| Land | 33,300 | | |
| Office building | 88,852 | | |
| City water tower | 128,869 | | |
| Office equipment | 53,681 | 5,561 | |
| Other equipment | 126,381 | | |
| | <u>\$ 5,329,003</u> | <u>\$ 20,553</u> | <u>\$ -</u> |

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS**NOTE 11—Property, Plant, and Equipment (continued)**

The following represents a roll-forward of accumulated depreciation as of December 31, 2012 and 2011.

| | Beginning Balance | 2011 Rollforward | | Ending Balance |
|--------------------------|-----------------------|---------------------|--------------|-----------------------|
| | | Additions | Dispositions | |
| Accumulated depreciation | | | | |
| Meters | \$ (914,700) | \$ (19,076) | \$ - | \$ (933,776) |
| Distribution lines | (1,851,315) | (66,412) | | (1,917,727) |
| Tanks | (379,154) | (21,749) | | (400,903) |
| Office building | (78,384) | (1,801) | | (80,185) |
| City water tower | (127,028) | | | (127,028) |
| Office equipment | (51,863) | (153) | | (52,016) |
| Other equipment | (102,364) | (4,299) | | (106,663) |
| | <u>\$ (3,504,808)</u> | <u>\$ (113,490)</u> | <u>\$ -</u> | <u>\$ (3,618,298)</u> |

| | Beginning Balance | 2012 Rollforward | | Ending Balance |
|--------------------------|-----------------------|---------------------|--------------|-----------------------|
| | | Additions | Dispositions | |
| Accumulated depreciation | | | | |
| Meters | \$ (933,776) | \$ (19,451) | \$ - | \$ (953,227) |
| Distribution lines | (1,917,727) | (64,091) | | (1,981,818) |
| Tanks | (400,903) | (21,749) | | (422,652) |
| Office building | (80,185) | (1,772) | | (81,957) |
| City water tower | (127,028) | | | (127,028) |
| Office equipment | (52,016) | (1,505) | | (53,521) |
| Other equipment | (106,663) | (5,585) | | (112,248) |
| | <u>\$ (3,618,298)</u> | <u>\$ (114,153)</u> | <u>\$ -</u> | <u>\$ (3,732,451)</u> |

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 11 – Property, Plant, and Equipment (continued)

Capitalization policies, depreciation methods, and estimated useful lives of capital assets are as follows:

| | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|--------------------|--------------------------------|----------------------------------|
| Meters | Straight Line | 10-20 years |
| Distribution lines | Straight Line | 33-50 years |
| Tanks | Straight Line | 15-40 years |
| Office building | Straight Line | 5-40 years |
| Office equipment | Straight Line | 5-10 years |
| Other equipment | Straight Line | 5-10 years |

NOTE 12 – Compensated Absences

The District has a paid time off policy program for employees, which includes vacation, sickness or other personal needs. Full-time employees with six year or less of service are eligible for two weeks of vacation. Full-time employees seven or more years of service are eligible for three weeks of vacation. Vacation time that is not used during the year is lost. Employees accrue .50 days of sick leave for every month of service. Accrued sick leave is not paid at termination. No accrued sick leave is included in these financial statements due to the immateriality of the amount.

NOTE 13 – Subsequent Events Review

Subsequent events for management's review have been evaluated through January 21, 2013. This is the date the financial statements were available to be issued.

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Karlin & Long, LLC
Certified Public Accountants

Board of Directors
Rural Water District No. 8, Shawnee County, Kansas
Tecumseh, Kansas 66542

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDIT STANDARDS**

We have audited the basic financial statements of the business-type activities of Rural Water District No. 8, Shawnee County, Kansas (the District) as of and for the year ended December 31, 2012 and 2011, and have issued our report thereon dated January 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

10115 Cherry Lane
Lenexa, Kansas 66220
(913) 829-7676

2200 Kentucky Avenue
Platte City, Missouri 64079
(816) 858-3791

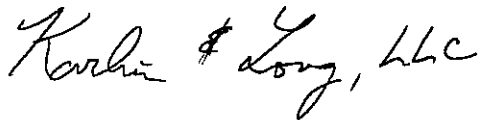
901 Kentucky Street, Suite 104
Lawrence, Kansas 66044
(785) 312-9091

Board of Directors
Rural Water District No. 08, Shawnee County, Kansas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors, others within the organization, and management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Karlin & Long, LLC".

Karlin & Long, LLC
Certified Public Accountants

January 21, 2013

RURAL WATER DISTRICT No. 8
Shawnee County, Kansas

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2012

Current Findings

None

Prior Findings

None

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

SUMMARY OF INSURANCE COVERAGE AND FIDELITY BONDS

As of December 31, 2012

| <u>Property Covered</u> | <u>Coverage</u> | <u>Expires</u> |
|---|-----------------|----------------|
| Commercial property: | 90% Coinsurance | 4/8/2013 |
| Building and personal property | 227,097 | |
| Water towers and equipment | 920,000 | |
| General Liability: | | 4/8/2013 |
| Aggregate Limit - | | |
| products/completed operations | 1,000,000 | |
| other than products/completed ops | 1,000,000 | |
| Personal and advertising injury | 500,000 | |
| Medical expense (per person) | 5,000 | |
| Commercial Auto: | | 4/8/2013 |
| Liability insurance (per loss) | 500,000 | |
| Uninsured motorist | 500,000 | |
| Underinsured motorist | 500,000 | |
| Workmen's compensation: | | 4/8/2013 |
| Bodily injury by accident | 500,000 | |
| Bodily injury by disease (per employee) | 500,000 | |
| Bodily injury by disease (policy limit) | 500,000 | |
| Public Employee Dishonesty: | | 4/8/2013 |
| Per loss | 25,000 | |
| Inland Marine | 80% Coinsurance | 4/8/2013 |
| Property in transit | 35,200 | |
| Pipe fittings, valves, supplies | 30,000 | |
| Additional debris removal | 5,000 | |
| Pollutant Cleanup and removal | 10,000 | |
| Ford tractor | 4,200 | |
| Ford mower | 600 | |
| Ford scraper | 400 | |
| Linebacker Coverage | | 4/8/2013 |
| Each loss | 1,000,000 | |
| Aggregate | 1,000,000 | |

The notes to the financial statements are an integral part of this statement.